

CITY OF ROGERS CITY
71-2020
Financial Report
(Including supplemental information)
For the Fiscal Year Ended June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF ROGERS CITY	County PRESQUE ISLE
Audit Date 6/30/04	Opinion Date 10/28/04	Date Accountant Report Submitted to State: 12/16/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

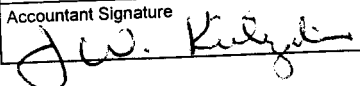
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) J.W. KIELISZEWSKI, CPA, PC			
Street Address 476 NORTH THIRD ST		City ROGERS CITY	State MI
Accountant Signature 		ZIP 49779	
		Date 12/16/04	

CITY OF ROGERS CITY

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CITY OF ROGERS CITY

City Council Administrative Staff June 30, 2004

The Honorable City Council

MAYOR

Beach Hall

MAYOR PRO-TEM

James Sinclair

COUNCIL MEMBERS

Karl Heidemann

Patrick Lamb

Gary Nowak

The Administrative Staff

CITY MANAGER

John Bruning

CLERK/TREASURER

Theresa A. Heinzl

CITY ATTORNEY

Michael Vogler

October 28, 2004

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Rogers City
Rogers City, Michigan 49779

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rogers City, State of Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rogers City, State of Michigan. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements listed in the foregoing table of contents present fairly, in all material respects, the financial position of the City of Rogers City, State of Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated October 28, 2004 on my consideration of the City's internal control structure and its compliance with laws and regulations.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Rogers City, State of Michigan's basic financial statements. The accompanying other supplemental information, as identified in

the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 14, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements, as of July 1, 2003.

J.W. Kuligowski

CITY OF ROGERS CITY

Management's Discussion and Analysis

Our discussion and analysis of the City of Rogers City, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ending June 30, 2004:

- The fund balance in the General Fund increased from \$330,486 to \$410,953. This increase resulted from conservative budget projections related to a tax tribunal case with a major local industry and the inclusion of the 2.74 mills as General Fund tax revenue that was previously allocated to the 1987 Street Debt Retirement Fund.
- State-shared revenue, the City's second largest General Fund Revenue source, was reduced by the State of Michigan by \$12,071, representing a 2.9 percent decrease from the prior fiscal year. However, the \$401,203 received from the State of Michigan fell short of the budgeted projection by \$26,992.
- Projected Assessor activity budgeted expenditures were originally overestimated by \$111,550 because of legal cost estimates associated with the tax tribunal case.
- At the end of the fiscal year, unreserved fund balance for the General Fund was \$359,604, or 23% of the total General Fund Expenditures.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

CITY OF ROGERS CITY

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004:

	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets	\$1,456,834	\$407,376	\$1,864,210
Non Current Assets	<u>4,668,658</u>	<u>6,998,899</u>	<u>11,667,557</u>
Total Assets	6,125,492	7,406,275	13,531,767
Liabilities			
Current Liabilities	139,139	164,916	304,055
Long-Term Liabilities	<u>250,000</u>	<u>831,326</u>	<u>1,081,326</u>
Total Liabilities	389,139	996,242	1,385,381
Net Assets			
Invested in Capital Assets – Net of related debt	3,954,742	5,287,759	9,242,501
Restricted	589,346	250,703	840,049
Unrestricted	<u>1,192,265</u>	<u>871,571</u>	<u>2,063,836</u>
Total Net Assets	<u>\$5,736,353</u>	<u>\$6,410,033</u>	<u>\$12,146,386</u>

The following table shows the changes of the net assets during the year ended June 30, 2004:

	Governmental Activities	Business-Type Activities	Total
Net Assets – Beginning of Year (as adjusted)	\$4,770,457	\$6,414,456	\$11,184,913
Revenue			
Program Revenue:			
Charges for Services	28,803	1,352,186	1,380,989
Operating grants & Contrib.	1,328,401	8,880	1,337,201
General Revenue:			
Property Taxes	1,057,490	0	1,057,490
State-Shared Revenue	415,486	0	415,486
Investment Earnings	22,523	5,226	27,749
Transfers & Other Revenue	<u>88,724</u>	<u>53,477</u>	<u>142,201</u>
Total Revenue	2,941,427	1,419,689	4,361,116

(Continued on next page)

CITY OF ROGERS CITY

Management's Discussion and Analysis (Continued)

(Continued from previous page)

Program Expenses:			
General Government	362,043	0	362,043
Public Safety	462,724	0	462,724
Public Works	386,727	0	386,727
Highways & Streets	157,053	0	157,053
Recreation & Parks	72,058	0	72,058
Community & Econ. Development	193,200	0	193,200
Interest on long-term debt	187	0	187
Other Functions	341,539	0	341,539
Business-type activities	<u>0</u>	<u>1,424,112</u>	<u>1,424,112</u>
Total Program Expenses	1,975,531	1,424,112	3,399,643
Change in Net Assets	<u>965,897</u>	<u>(4,123)</u>	<u>961,474</u>
Net Assets – End of Year	<u>\$5,736,353</u>	<u>\$6,410,033</u>	<u>\$12,146,387</u>

Governmental Activities

As this is the first year of implementation for GASB No. 34, comparative information on a government-wide basis is not available for the year ended June 30, 2004. Comparative information will be presented in the management's discussion and analysis for the period ending June 30, 2005. In the current year, comparative information will be discussed for the fund financial statements only.

Business-type Activities

The City's business-type activities consist of Wastewater Treatment, Water, Marina, Garbage Collection, Ambulance Building and Rogers City Housing Commission. Wastewater treatment is provided through a City-owned and operated sewage treatment plant. The City provides water to residents from three ground water wells. The Marina is owned and operated by the City. There are three General Obligation bonds for major marina reconstruction projects in 1994, 1995 and 2000. Garbage collection and recycling services are provided by an outside commercial entity leasing a City-owned building in the industrial park. In 1995 the City constructed a building which is currently leased by the Ambulance Authority. The Housing Commission operates a 38-unit senior housing facility.

Although not required, the City prepares an unofficial budget for its business-type activities, for internal use only, in order to evaluate various expenses incurred during the year. The Wastewater Treatment Fund fell short of budgeted revenue projections by \$14,600 primarily due to lower than anticipated connection fees and sewer usage. Expenditures fell short of budget by \$42,695. Overall, the increase in the fund balance was \$37,069.

Fund balance in the Water Fund increased by \$25,683. This is primarily due to delay in expenditures related to construction of the City's most recent drilled well. Revenues were consistent with budget estimates.

CITY OF ROGERS CITY

Management's Discussion and Analysis (Continued)

The Marina Fund experienced a \$24,697 decrease in fund balance. Budget projections indicated a \$45,091 shortfall due largely to the initial principal payment on the 2000 bond issue. This shortfall was reduced by receipts from additional seasonal slip rentals.

The City's Funds

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for the current year include the General Fund, Major Street Fund, Local Street Fund, Community Development Authority and Industrial Park Infrastructure.

Budgetary Highlights

Significant differences between the original and final amended budget for miscellaneous sundry revenues was due to the anticipated payment related to an out of court settlement of a tax tribunal dispute with a local industry. Significant differences for general fund expenditures are due largely to a reduction in estimated legal expenses in the assessor category for a tax tribunal trial because an out of court settlement was reached.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$11,335,606 (net of depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, water and sewer system, marina, vehicles and equipment.

Additional information on the City's capital assets can be found in Note 5 on pages 39-40 of this report.

Major capital asset activity during the fiscal year included the following:

- Industrial Park Infrastructure
- Calcite Road Reconstruction

As of June 30, 2004, the City had total debt outstanding of \$1,191,304. Of this amount \$900,000 are general obligation bonds. The remainder of the City's debt is backed by the full faith and credit of the City.

Additional information on the City's long-term debt can be found in Note 7 on pages 41-44 of this report.

CITY OF ROGERS CITY

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- Increase in property tax value.
- Decrease in State Shared revenue
- Sewer rate changes: the capital charge was decreased by \$.40 per month and the commodity charge was increased by \$.05 per 100 cubic feet of usage.
- Water rate changes: the capital charge was decreased by \$.20 per month and the commodity charge was increased by \$.05 per 100 cubic feet of usage.
- Garbage collection rates adjusted for Consumer Price Index

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City office at 989-734-2191. We are also open Monday-Friday 9 am to 5 pm. Our office is located at City Hall, 193 East Michigan Avenue, Rogers City, MI 49779.

CITY OF ROGERS CITY**Government-wide Statement of Net Assets
June 30, 2004**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 427,454	\$ 116,398	\$ 543,852
Investments	740,637	191,186	931,823
Accounts Receivable	263,329	83,353	346,682
Special Assessments	15,414	1,750	17,164
Internal Balances	10,000	(10,000)	-
Prepaid Expenses	-	3,573	3,573
Inventory	-	11,116	11,116
Restricted Assets	81,248	250,703	331,951
Capital Assets:			
Not Depreciable	925,311	2,022,148	2,947,459
Depreciable (Net)	2,800,316	4,720,096	7,520,412
Cost in Progress	<u>861,783</u>	<u>5,952</u>	<u>867,735</u>
Total Net Capital Assets	<u>4,587,410</u>	<u>6,748,196</u>	<u>11,335,606</u>
Total Assets	6,125,492	7,396,275	13,521,767
LIABILITIES			
Accounts Payable	123,725	30,676	154,401
Security Deposits	-	7,965	7,965
Deferred Revenue	15,414	6,297	21,711
Long-Term Liabilities:			
Due Within One Year	-	109,978	109,978
Due in More than One Year	<u>250,000</u>	<u>831,326</u>	<u>1,081,326</u>
Total Liabilities	<u>389,139</u>	<u>986,242</u>	<u>1,375,381</u>
NET ASSETS			
Investment in Capital Assets	3,954,742	5,287,759	9,242,501
Restricted Assets:			
Capital Projects	81,248	250,703	331,951
Unrestricted Assets	1,561,797	871,571	2,433,368
Non-Expendable Restricted	<u>138,566</u>	-	<u>138,566</u>
Total Net Assets	<u>\$ 5,736,353</u>	<u>\$ 6,410,033</u>	<u>\$ 12,146,386</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ROGERS CITY

Government-wide Statement of Activities For the fiscal year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Capital Grants
Primary Government				
Governmental Activities:				
General Government	\$ 362,043	\$ 8,269	\$ -	\$ -
Public Safety	462,724	9,159	56,239	-
Public Works	386,727	8,030	-	-
Highways and Streets	157,053	-	324,268	-
Community & Econ. Development	193,200	2,595	3,601	928,604
Parks and Recreation	72,058	750	15,689	-
Other Functions	341,539	-	-	-
Interest on Long-term Debt	187	-	-	-
Total Governmental Activities	1,975,531	28,803	399,797	928,604
Business-type Activities:				
Wastewater Treatment	365,292	277,564	-	8,800
Water	293,582	400,927	-	-
Marina	460,931	431,957	-	-
Ambulance Building	4,449	-	-	-
Housing Commission	157,167	102,103	-	-
Garbage Collection	142,691	139,635	-	-
Total Business-type Activities	1,424,112	1,352,186	-	8,800
Total Primary Government	\$ 3,399,643	\$ 1,380,989	\$ 399,797	\$ 937,404

General Revenues

Taxes

State-Shared Revenues

Interest

Other Revenues

Transfers

Total General Revenues & Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

**Government-wide Statement of Activities
For the Fiscal Year Ended June 30, 2004**

Net Revenue (Expense) and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (353,774)	\$ -	\$ (353,774)
(397,326)	-	(397,326)
(378,697)	-	(378,697)
167,215	-	167,215
741,600	-	741,600
(55,619)	-	(55,619)
(341,539)	-	(341,539)
(187)	-	(187)
<u>(618,327)</u>	<u>-</u>	<u>(618,327)</u>
-	(78,928)	(78,928)
-	107,345	107,345
-	(28,974)	(28,974)
-	(4,449)	(4,449)
-	(55,064)	(55,064)
-	(3,056)	(3,056)
<u>-</u>	<u>(63,126)</u>	<u>(63,126)</u>
(618,327)	(63,126)	(681,453)
1,057,490	-	1,057,490
415,486	-	415,486
22,523	5,226	27,749
91,924	50,277	142,201
(3,200)	3,200	-
<u>1,584,223</u>	<u>58,703</u>	<u>1,642,926</u>
965,896	(4,423)	961,473
<u>4,770,457</u>	<u>6,414,456</u>	<u>11,184,913</u>
<u>\$ 5,736,353</u>	<u>\$ 6,410,033</u>	<u>\$ 12,146,386</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ROGERS CITY

2020-2021 Annual Budget Report

	Major Funds		
	General	Major Street	Local Street
ASSETS			
Cash	\$ 190,604	\$ 55,093	\$ 63,207
Investments	49,300	250,000	
Accounts Receivable	41,094	26,149	7,003
Special Assessments	-	5,802	9,612
Due From Other Funds	122,693	-	-
Land Held for Sale	-	-	-
Restricted Assets	51,346	-	29,902
Total Assets	\$ 455,037	\$ 337,044	\$ 109,724
LIABILITIES			
Accounts Payable	\$ 44,087	\$ 1,247	\$ 2,628
Due to Other Funds	-	-	-
Special Assessments	-	5,802	9,612
Long-Term Liabilities	-	-	-
Total Liabilities	44,087	7,049	12,240
FUND BALANCES			
Investment in Capital Assets	-	-	-
Restricted:			
Revolving Loan	-	-	-
Capital Projects	51,346	-	29,902
Unrestricted Funds	359,604	329,995	67,582
Non-Expendable Restricted	-	-	-
Total Fund Balances	410,950	329,995	97,484
Total Liabilities & Fund Balance	\$ 455,037	\$ 337,044	\$ 109,724

GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2004

<u>Community Development</u>	<u>Industrial Park Infrastructure</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 51,364	\$ 247	\$ 54,963	\$ 415,478
10,000	-	431,337	740,637
4	153,032	36,047	263,329
-	-	-	15,414
-	-	-	122,693
347,516	-	-	347,516
-	-	-	81,248
<u>\$ 408,884</u>	<u>\$ 153,279</u>	<u>\$ 522,347</u>	<u>\$ 1,986,315</u>
\$ 220	\$ 74,168	\$ -	\$ 122,350
-	35,000	7,693	42,693
-	-	-	15,414
250,000	-	-	250,000
<u>250,220</u>	<u>109,168</u>	<u>7,693</u>	<u>430,457</u>
-	44,111	-	44,111
-	-	250,000	250,000
-	-	-	81,248
158,664	-	126,088	1,041,933
-	-	138,566	138,566
<u>158,664</u>	<u>44,111</u>	<u>514,654</u>	<u>1,555,858</u>
<u>\$ 408,884</u>	<u>\$ 153,279</u>	<u>\$ 522,347</u>	<u>\$ 1,986,315</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ROGERS CITY

GOVERNMENTAL FUNDS Reconciliation of Fund Balances of Governmental Funds To the Statement of Net Assets

Total Fund Balances for Governmental Funds	\$1,555,858
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Amounts reported for Governmental Activities in the Statement
of Net Assets are different because:

Capital Assets used in Governmental Activities are not financial resources and are not reported in the funds	3,910,631
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Internal Service Funds are included as part of governmental activities	<u>269,864</u>
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Net Assets of Governmental Activities	<u>\$5,736,353</u>
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The Notes to Financial Statements are an integral part of this statement.

CITY OF ROGERS CITY

	Major Funds		
	General	Major Street	Local Street
Revenues			
Taxes	\$ 981,904	\$ -	\$ -
Intergovernmental	470,068	229,802	94,466
Licenses & Permits	2,595	-	-
Charges for Services	10,312	-	-
Fines & Forfeitures	6,877	-	-
Special Assessments	-	7,257	6,169
Investment Revenue	6,043	2,917	43
Miscellaneous	71,634	3,371	-
Contributions & Donations	15,689	-	-
Payments in Lieu of Taxes	7,540	-	-
Total Revenues	1,572,662	243,347	100,678
Expenditures			
General Government	406,124	1,000	1,000
Public Safety	429,327	-	-
Highways & Streets	-	116,764	128,048
Public Works	153,142	-	-
Community Development	50,905	-	-
Parks & Recreation	131,781	-	-
Other Functions	378,948	308	308
Debt Service	-	-	-
Capital Outlay	14,367	89,079	-
Total Expenditures	1,564,594	207,151	129,356
Excess (Deficiency) of Revenues Over Expenditures	8,068	36,196	(28,678)
Other Financing Sources (Uses)			
Operating Transfers In	113,118	-	77,849
Operating Transfers Out	(40,722)	(67,126)	(7,894)
Total Other Financing Sources (Uses)	72,396	(67,126)	69,955
Net Changes in Fund Balance	80,464	(30,930)	41,277
FUND BALANCE- Beginning of Year	330,486	360,925	56,207
FUND BALANCE - End of Year	\$ 410,950	\$ 329,995	\$ 97,484

GOVERNMENTAL FUNDS

Statement of Revenue, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2004

<u>Community Development</u>	<u>Industrial Park Infrastructure</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental</u>
\$ 64,820	\$ -	\$ 11,457	\$ 1,058,181
-	728,604	205,258	1,728,198
-	-	-	2,595
750	-	-	11,062
-	-	-	6,877
-	-	2,592	16,018
4	-	6,862	15,869
2,742	-	750	78,497
-	-	-	15,689
-	-	-	7,540
<u>68,316</u>	<u>728,604</u>	<u>226,919</u>	<u>2,940,526</u>
-	1,202	1,970	411,296
-	-	1,436	430,763
-	-	-	244,812
-	-	-	153,142
15,415	-	1,549	67,869
-	-	13,882	145,663
-	-	-	379,564
-	-	7,187	7,187
-	861,783	-	965,229
<u>15,415</u>	<u>862,985</u>	<u>26,024</u>	<u>2,805,525</u>
52,901	(134,381)	200,895	135,001
-	-	1,200	192,167
(2,000)	-	(3,943)	(121,685)
<u>(2,000)</u>	<u>-</u>	<u>(2,743)</u>	<u>70,482</u>
50,901	(134,381)	198,152	205,483
<u>107,763</u>	<u>178,492</u>	<u>316,502</u>	<u>1,350,375</u>
<u>\$ 158,664</u>	<u>\$ 44,111</u>	<u>\$ 514,654</u>	<u>\$ 1,555,858</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ROGERS CITY

GOVERNMENTAL FUNDS

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances – Total Governmental Funds	\$ 205,483
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Amounts reported for Governmental Activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures;
in the Statement of Activities, these costs are allocated
over their estimated useful lives as depreciation.

Depreciation Expense	(188,417)
Capital Outlay	965,231

Internal Service funds are used by management to charge
costs of certain activities in individual funds; the net
revenue (expense) of these funds are reported within the
governmental activities.

(23,401)

Repayment of bond principal is an expenditure in the
Governmental funds, but not in the Statement of Activities
(where it reduces long-term debt).

<u>7,000</u>

Change in Net Assets of Governmental Activities	<u>\$965,896</u>
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The Notes to Financial Statements are an integral part of this statement.

CITY OF ROGERS CITY

	Enterprise Funds		
	Wastewater Treatment	Water	Marina
ASSETS			
Cash	\$ 15,992	\$ 26,956	\$ 38,478
Investments	15,000	-	25,000
Accounts Receivable	38,063	29,311	1,374
Special Assessments	904	846	-
Land Held for Sale	-	11,116	-
Restricted Assets	173,960	76,743	-
Net Capital Assets	276,214	685,637	4,977,605
Total Assets	<u>520,133</u>	<u>830,609</u>	<u>5,042,457</u>
LIABILITIES			
Accounts Payable	5,299	6,804	9,229
Due to Other Funds	-	-	-
Security Deposits	4,259	2,706	1,000
Deferred Revenue	1,785	846	3,666
Long-Term Liabilities:			
Due Within One Year	15,000	-	85,000
Due in More than One Year	15,000	-	785,000
Total Liabilities	<u>41,343</u>	<u>10,356</u>	<u>883,895</u>
NET ASSETS			
Investment in Capital Assets	118,747	26,045	4,469,061
Rest. Assets - Fixed Assets	173,960	76,743	-
Unrestricted Funds	186,083	717,465	(310,499)
Total Net Assets	<u>\$ 478,790</u>	<u>\$ 820,253</u>	<u>\$ 4,158,562</u>

PROPRIETARY FUND
Statement of Net Assets
June 30, 2004

Non-Major	Totals	Internal Service
\$ 34,972	\$ 116,398	\$ 11,976
151,186	191,186	-
14,605	83,353	-
-	1,750	-
3,573	14,689	-
-	250,703	-
<u>808,740</u>	<u>6,748,196</u>	<u>329,263</u>
 1,013,076	 7,406,275	 341,239
 9,344	 30,676	 1,375
10,000	10,000	70,000
-	7,965	-
-	6,297	-
 9,978	 109,978	 -
<u>31,326</u>	<u>831,326</u>	<u>-</u>
 60,648	 996,242	 71,375
 673,906	 5,287,759	 119,532
-	250,703	-
<u>278,522</u>	<u>871,571</u>	<u>150,332</u>
 \$ 952,428	 \$ 6,410,033	 \$ 269,864

The Notes to Financial Statements are an integral part of this statement.

CITY OF ROGERS CITY

	Enterprise Funds		
	Wastewater Treatment	Water	Marina
Operating Revenues			
Product Sales	\$ 398,580	\$ 277,564	\$ 195,615
Rentals	-	30,850	237,392
Total Operating Revenues	398,580	308,414	433,007
Operating Expenditures			
Personal Services	185,600	108,396	91,024
Cost of Products Sold	-	-	137,554
Supplies	17,708	17,541	3,911
Other Services & Charges	106,811	71,654	72,230
Depreciation	31,351	55,441	84,855
Total Operating Expenses	341,470	253,032	389,574
Operating Income (Loss)	57,110	55,382	43,433
Nonoperating Revenues (Expenses)			
Special Assessment Contributions	211	220	-
Interest Earned & Other	2,370	1,281	1,776
Interest Expense & Other	(3,485)	-	(50,907)
Grants - Federal & State	-	8,800	-
Total Nonoperating Revenues (Expenses)	(904)	10,301	(49,131)
Income (Loss) Before Transfers	56,206	65,683	(5,698)
Other Financing Sources (Uses)			
Transfers In	-	-	1,000
Transfers Out	(19,137)	(40,000)	(20,000)
Total Other Financing Sources (Uses)	(19,137)	(40,000)	(19,000)
Change in Net Assets	37,069	25,683	(24,698)
TOTAL NET ASSETS - Beginning of Year	441,721	794,570	4,183,259
TOTAL NET ASSETS - End of Year	\$ 478,790	\$ 820,253	\$ 4,158,561

PROPRIETARY FUNDS

Statement of Revenue, Expenditures and Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

Non-Major	Total	Internal Service
\$ 139,635	\$ 1,011,394	\$ 4,100
115,623	383,865	206,762
255,258	1,395,259	210,862
30,569	415,589	72,334
130,478	268,032	-
23,522	62,682	8,652
60,576	311,271	90,645
53,874	225,521	61,950
299,019	1,283,095	233,581
(43,761)	112,164	(22,719)
-	431	-
6,571	11,998	-
(2,287)	(56,679)	(682)
-	8,800	-
4,284	(35,450)	(682)
(39,477)	76,714	(23,401)
-	1,000	-
(3,000)	(82,137)	-
(3,000)	(81,137)	-
(42,477)	(4,423)	(23,401)
994,905	6,414,456	293,265
\$ 952,428	\$ 6,410,033	\$ 269,864

The Notes to Financial Statements are an integral part of this statement.

CITY OF ROGERS CITY

	Enterprise Funds		
	Wastewater Treatment	Water	Marina
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 396,707	\$ 298,737	\$ 430,219
Cash Payments to Suppliers for Goods & Services	(125,585)	(100,095)	(204,842)
Cash Payments to Employees for Services	(184,201)	(109,967)	(90,629)
Other Operating Revenues	-	8,800	914
Net Cash Provided by Operating Activities	86,921	97,475	135,662
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	(1,983)	(34,195)	(873)
Principal Paid on Bonds	(15,000)	-	(85,000)
Interest Paid on Bonds	(3,485)	-	(50,907)
Collection of Special Assessment	211	220	-
Transfers In	-	-	1,000
Transfers (Out)	(19,137)	(40,000)	(20,000)
Net Cash Provided (Used) for Capital and Related Financing Activities	(39,394)	(73,975)	(155,780)
Cash Flows from Investing Activities:			
Interest Received	2,365	1,281	922
Net Increase (Decrease) in Cash and Cash Equivalents	49,892	24,781	(19,196)
Cash and Cash Equivalents - Beginning of Year	155,060	78,918	82,674
Cash and Cash Equivalents - End of Year	\$ 204,952	\$ 103,699	\$ 63,478

PROPRIETARY FUNDS
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

<u>Non-Major</u>	<u>Total</u>	<u>Internal Service</u>
\$ 139,256	\$ 1,264,919	\$ 210,862
(213,561)	(644,083)	(29,997)
(30,569)	(415,366)	(72,350)
<u>115,413</u>	<u>125,127</u>	<u>-</u>
<u>10,539</u>	<u>330,597</u>	<u>108,515</u>
(9,952)	(47,003)	(80,118)
(8,713)	(108,713)	(15,800)
(2,287)	(56,679)	(682)
-	431	-
-	1,000	-
<u>(3,000)</u>	<u>(82,137)</u>	<u>-</u>
<u>(23,952)</u>	<u>(293,101)</u>	<u>(96,600)</u>
<u>5,674</u>	<u>10,242</u>	<u>-</u>
(7,739)	47,738	11,915
<u>193,897</u>	<u>510,549</u>	<u>61</u>
<u>\$ 186,158</u>	<u>\$ 558,287</u>	<u>\$ 11,976</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ROGERS CITY

	Enterprise Funds		
	Wastewater Treatment	Water	Marina
Operating Income (Loss)	\$ 57,110	\$ 55,382	\$ 43,434
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities			
Depreciation	31,351	55,441	84,855
(Increase) Decrease in Current Assets			
Accounts Receivable	(2,302)	(1,432)	2,788
Prepaid Expense	-	-	-
Increase (Decrease) in Current Liabilities			
Accounts Payable	1,137	(11,166)	5,990
Other Accrued Expenses			395
Due to Other Funds	(800)	(900)	-
Security Deposits	425	150	(1,800)
Total Adjustments	29,811	42,093	92,228
Net Cash Provided by Operating Activities	\$ 86,921	\$ 97,475	\$ 135,662

PROPRIETARY FUNDS
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004
(Continued)

<u>Non-Major</u>	<u>Total</u>	<u>Internal Service</u>
\$ (43,761)	\$ 112,165	\$ (22,719)
53,874	225,521	61,950
(589)	(1,535)	-
1,212	1,212	-
(97)	(4,136)	(16)
-	395	69,300
(100)	(1,800)	-
-	(1,225)	-
<u>54,300</u>	<u>218,432</u>	<u>131,234</u>
<u>\$ 10,539</u>	<u>\$ 330,597</u>	<u>\$ 108,515</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ROGERS CITY

FIDUCIARY FUNDS Statement of Net Assets June 30, 2004

	Separation Pay <u>Reserve</u>
ASSETS	
Cash and Cash Equivalents	<u>\$148,848</u>
NET ASSETS	
Held in Trust for Pension Benefits	<u>\$148,848</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ROGERS CITY

FIDUCIARY FUNDS Statement of Changes in Net Assets For the Fiscal Year Ended June 30, 2004

	<u>Separation Pay Reserve</u>
ADDITIONS	
Interfund Transfers	\$ 10,655
Investment Income - Interest	3,543
Less: Investment Expense	<u>65</u>
Net Investment Income	<u>3,478</u>
Total Additions	14,133
DEDUCTIONS	
Retiree Benefits	<u>27,202</u>
Change in Net Assets	(13,069)
Net Assets - Beginning of Year	<u>161,917</u>
Net Assets - End of Year	<u>\$ 148,848</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ROGERS CITY

Notes to Financial Statements June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City of Rogers City, County of Presque Isle, State of Michigan (the "City") was incorporated January 10, 1945, under the provisions of *Act 279, P.A. 1909*, as amended (Home Rule City Act). The City operates under a Council-Manager form of government, and provides highways and streets, sanitation, health and social services, recreation-parks, education, public improvements, planning and zoning, and general administrative services to approximately 3,650 residents.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund - The Major Roads Fund is used to account for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Local Street Fund - The Local Street Fund is used to account for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Community Development Fund - The Community Development Fund is a capital project fund that accounts for the acquisition and improvement of previous industrial sites located in a residential area.

Industrial Park Infrastructure Fund - The Industrial Park Infrastructure Fund is a capital project fund that accounts for the construction of water and sewer main construction as well as road, curb and gutter extensions to the industrial park.

The City reports the following major proprietary funds:

Enterprise Funds - Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. These are comprised in turn of the:

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

Wastewater Treatment Fund – The Wastewater Treatment Fund accounts for the activities of the sewer collection system, financed primarily by a user charge for the provision of those services.

Water Fund – The Water Fund accounts for the activities of the water distribution system, financed primarily by a user charge for the provision of those services.

Marina Fund – The Marina Fund accounts for the activities of the marina system, financed primarily by a user charge for the provision of those services.

Additionally, the City reports the following fund types:

Internal Service Funds – Internal Service Funds are used to account for major machinery and equipment purchases and maintenance provided to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Debt Service Funds – Debt Service Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt principal, interest and related costs.

Capital Projects Funds – Capital Projects Funds are used to account for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessment Funds, and Trust Funds). Revenues consist of interest income on investments and transfers from other funds for debt service.

Fiduciary Funds – Fiduciary, or Trust and Agency, Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Expendable Trust, Nonexpendable Trust, Pension Trust, and Agency Funds. Nonexpendable Trust and Pension Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water, sewer and marina functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Property Tax Revenue

The City assesses and collects real property taxes for the City, County, and School System. Each entity is paid its share of the taxes when collected. Uncollected real property taxes attributable to the City are recorded as assets of the General and Band Funds. Real property taxes are recognized as revenues at the time the taxes are levied.

The 2003 taxable valuation of the City totaled approximately \$59,803,833, on which ad valorem taxes levied consisted of 17.05 mills for the City's general operating purposes, and .2 mills for Band Fund. The ad valorem taxes levied raised approximately \$857,000 for operations (which are net of various refunds and TIFA transfers paid during the year ended June 30, 2004 approximating \$47,400). In addition, the General Fund received various payments in lieu of taxes during the year approximating \$7,540. These amounts are recognized in the General Fund as "Payments in Lieu of Taxes".

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Assets, Liabilities and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/ borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

Inventories – Inventories are valued at cost, on a first-in, first-out basis. These are not significant.

Restricted Assets – The restricted assets in the General, Water and Wastewater Treatment Funds consist of cash and cash equivalents, investments, and property tax and assessments receivable restricted to provide debt service principal, interest and future capital spending.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as: (a) office equipment, tools, machinery and equipment assets with an initial individual cost of over \$1,000 and a useful life of over one (1) year; or (b) buildings, infrastructure assets, land, land improvements, office equipment, or machinery and equipment assets with an initial individual cost of over \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment and vehicles are depreciated using the straight-line method over the following useful lives:

Land	Not depreciable
Land Improvements	20 years
Infrastructure	15-40 years
Buildings	50 years
Building Improvements	20 years
Machinery & Equipment	5-15 years
Office Equipment	5-10 years
Work in Progress	Determined when project is completed

Compensated Absences (Vacation and Sick Leave) – It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

The Separation Reserve Fund was established to provide cash for the severance payment to any employee, upon termination of his employment, of half of his accumulated sick leave. As a result of the establishment of this fund, the vested benefits are not recorded in the Long-term Debt Group of Accounts.

Approximately \$297,696 is the total potential vested liability at the present time if sick leave were to be totally used. The fund balance in the Separation Reserve Fund is \$148,848, representing the one-half of potential benefits payable in cash at termination, resulting in an underfunded position of \$148,848. A contingent

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

liability exists for the remaining \$148,848 in sick leave benefits that are not vested.

No unused accrued vacation time exists as of June 30, 2004.

Long-term Obligations – In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data – Comparative data is not included in the City's financial statements.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the second Monday in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to the third Monday in May, the budget is legally enacted through passage of a resolution.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Assessment Funds, and Debt Service Funds.
6. Budgets for the General, Special Revenue, and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by City Council.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

The budgets have been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations to the nonmajor budgets, as adopted by the City, is available at the City offices for inspection.

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 is not known. During the current year, the budget was amended in a legally permissible manner.

The budgets have been prepared in accordance with generally accepted accounting principles for the General Fund and all Special Revenue Funds.

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the City incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
General Government - Elections	\$ 4,731	\$ 4,758	\$ (27)
Operating Transfers Out	39,522	40,722	(1,200)
Major Street Fund			
Operating Transfers Out	67,042	67,126	(84)
Local Street Fund			
Operating Transfers Out	7,822	7,894	(72)

These variances are reported in the Supplemental portion of the Financial Statements, and discussed here for continuity with the budgetary note.

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, §129.91, authorizes local governmental units to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated five financial agencies for the deposit of local unit funds. The investment policy adopted by the City in accordance with *Public Act 196 of 1997* has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority.

At year end, deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government
Cash and Cash Equivalents	\$ 1,168,091	\$ 307,584	\$ 1,475,675
Restricted Assets - Cash	81,248	250,703	331,951
Total	<u>\$ 1,249,339</u>	<u>\$ 558,287</u>	<u>\$ 1,807,626</u>

The breakdown of governmental activities as shown in the fund-based financial statements is as follows:

	Governmental Funds	Proprietary Fund Internal Service Fund
Cash and Cash Equivalents	<u>\$ 1,156,115</u>	<u>\$ 11,976</u>

The breakdown of deposits for the City is as follows:

	Insured	Uninsured	Total
Independent Bank	\$ 100,000	\$ 505,869	\$ 605,869
Merrill Lynch	100,000	165,389	265,389
Calcite Credit Union	22	-	22
Huron National Bank	100,000	984,094	1,084,094
Petty Cash	-	1,100	1,100
Total	<u>\$ 300,022</u>	<u>\$ 1,656,452</u>	<u>\$ 1,956,474</u>

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The City's investments during the year consisted of certificates of deposit and U.S. government securities. There was \$666,434 invested in certificates of deposit, and \$265,389 invested in U.S. government securities at June 30, 2004, of which \$740,637 was allocated to governmental activities, and \$191,186 to business-type activities. Investments are categorized to give an indication of the level of risk assumed by the City. The City's investments are categorized as a Risk Category 1, which would include investments that are insured or registered, or securities held by the City or its agent in the City's name.

NOTE 4 – RECEIVABLES / DEFERRED REVENUE

On the fund-based financial statements, governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the entire deferred revenue balance was comprised mainly of special assessments, which are unavailable in the governmental funds. On the government-wide financial statements, since reporting is based on the full accrual basis of accounting, there is no deferred revenue. However, due to the immateriality of deferred revenue on the City's financial statement, and the inconsistency of collection, management has elected not to make the adjustment and continues to report special assessment as deferred revenue on the government-wide financial statements.

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

NOTE 5 – CAPITAL ASSETS

Capital asset activity of the City's governmental and business-type activities for the current year was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals & Adjustments</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 904,657	\$ 20,654	\$ -	\$ 925,311
Construction in Progress	-	861,783	-	861,783
Total Capital Assets Not Depreciated	<u>904,657</u>	<u>882,437</u>	<u>-</u>	<u>1,787,094</u>
Capital Assets Being Depreciated:				
Infrastructure	2,326,358	89,079	-	2,415,437
Parks & Trail Improvements	772,913	-	-	772,913
Buildings	543,617	-	-	543,617
Machinery & Equipment	1,551,635	88,988	-	1,640,623
Office Equipment	109,250	5,497	9,809	104,938
Total Capital Assets Being Depreciated	<u>5,303,773</u>	<u>183,564</u>	<u>9,809</u>	<u>5,477,528</u>
Total Capital Assets	<u>6,208,430</u>	<u>1,066,001</u>	<u>9,809</u>	<u>7,264,622</u>
Accumulated Depreciation:				
Infrastructure	873,856	96,618	-	970,474
Parks & Trail Improvements	182,305	33,370	-	215,675
Buildings	212,558	11,053	-	223,611
Machinery & Equipment	1,100,332	97,179	-	1,197,511
Office Equipment	67,602	12,148	9,809	69,941
Total Accumulated Depreciation	<u>2,436,653</u>	<u>250,368</u>	<u>9,809</u>	<u>2,677,212</u>
Net Capital Assets Being Depreciated	<u>2,867,120</u>	<u>(66,804)</u>	<u>-</u>	<u>2,800,316</u>
Net Capital Assets	<u>\$ 3,771,777</u>	<u>\$ 815,633</u>	<u>\$ -</u>	<u>\$ 4,587,410</u>

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

Business-type Activities

	Beginning Balance	Additions	Disposals & Adjustments	Ending Balance
Capital Assets Not Being Depreciated:				
Land & Land Rights	\$ 2,022,148	\$ -	\$ -	\$ 2,022,148
Construction in Progress	-	5,952	-	5,952
Total Capital Assets Not Depreciated	2,022,148	5,952	-	2,028,100
Capital Assets Being Depreciated:				
Buildings	1,930,210	-	-	1,930,210
Plant Equipment & Mains	6,857,106	44,369	15,845	6,885,630
Machinery & Equipment	257,808	4,000	-	261,808
Office Equipment	32,035	1,384	5,428	27,991
Total Capital Assets Being Depreciated	9,077,159	49,753	21,273	9,105,639
Total Capital Assets	11,099,307	55,705	21,273	11,133,739
Accumulated Depreciation:				
Buildings	907,453	61,143	-	968,596
Plant Equipment & Mains	3,066,730	153,283	15,845	3,204,168
Machinery & Equipment	178,764	9,118	-	187,882
Office Equipment	28,348	1,977	5,428	24,897
Total Accumulated Depreciation	4,181,295	225,521	21,273	4,385,543
Net Capital Assets Being Depreciated	4,895,864	(175,768)	-	4,720,096
Net Capital Assets	\$ 6,918,012	\$ (169,816)	\$ -	\$ 6,748,196

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:

General Government	\$ 16,519
Public Safety	31,960
Public Works	10,220
Community & Economic Development	3,080
Recreation and Parks	55,421
Highways and Streets	133,168
Total Governmental Activities	<u>\$250,368</u>

Business-type Activities:

Water	\$ 55,440
Wastewater Treatment	31,351
Marina	84,855
Garbage Collection	3,192
Ambulance Building	2,162
Housing Commission	48,521
Total Business-type Activities	<u>\$225,521</u>

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due To/From Other Funds		
General Fund	Capital Project-Industrial Park	\$ 35,000
	Internal Service	70,000
	Other Nonmajor Governmental funds	<u>7,693</u>
Total Governmental Funds		112,693
General Fund	Proprietary fund - Internal Service	<u>10,000</u>
Total		<u>\$ 122,693</u>

Interfund balances represent routine and temporary cash flow assistance resulting from normal interfund activity until the amounts can be reimbursed between the funds.

Interfund Transfers

	Transfers Out									Total
	General Fund	Major Street Fund	Local Street Fund	Community Development	Nonmajor Governmental	Wastewater Treatment Fund	Water Fund	Marina Fund	Nonmajor Proprietary	
Transfers In:										
General Fund	\$ -	\$ 19,179	\$ 7,894	\$ 1,000	\$ 3,943	\$ 18,102	\$ 40,000	\$ 20,000	\$ 3,000	\$ 113,118
Local Street Fund	29,902	47,947	-	-	-	-	-	-	-	77,849
Nonmajor Govtl. Fund	1,200	-	-	-	-	-	-	-	-	1,200
Marina Fund	-	-	-	1,000	-	-	-	-	-	1,000
Separation Pay Reserve	9,620	-	-	-	-	1,035	-	-	-	10,655
Total	<u>\$ 40,722</u>	<u>\$ 67,126</u>	<u>\$ 7,894</u>	<u>\$ 2,000</u>	<u>\$ 3,943</u>	<u>\$ 19,137</u>	<u>\$ 40,000</u>	<u>\$ 20,000</u>	<u>\$ 3,000</u>	<u>\$ 203,822</u>

NOTE 7 – LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital assets. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide these resources to cover the deficiency until other resources are received.

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

Bond and contractual obligation activity can be summarized as follows:

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:							
Community Development loan - HNB							
Amount of issue - \$250,000	8.25%	\$250,000	\$ 250,000	\$ -	\$ -	\$ 250,000	\$ -
Maturing through 2005							
Business-type Activities:							
Installment Purchase Payable							
Ambulance Building							
Amount of issue - \$125,000	5.50%	\$6,800 -	\$ 50,773	\$ -	\$ 9,469	\$ 41,304	\$ 9,978
Maturing through 2008		\$11,200					
Revenue Bond							
Wastewater Treatment							
Amount of issue - \$170,000	7.08%	\$15,000	45,000	-	15,000	30,000	15,000
Maturing through 2006							
General Obligation Bonds:							
1994 G.O. Bonds							
Amount of issue - \$450,000	4.75% -	\$25,000 -	250,000	-	30,000	220,000	30,000
Maturing through 2009	5.75%	\$40,000					
1995 G.O. Bonds							
Amount of issue - \$475,000	4.40% -	\$25,000 -	240,000	-	30,000	210,000	30,000
Maturing through 2011	5.70%	\$30,000					
2000 G.O. Bonds							
Amount of issue - \$465,000	4.9% -	\$25,000 -	465,000	-	25,000	440,000	25,000
Maturing through 2016	5.45%	\$50,000					
Totals			\$ 1,050,773	\$ -	\$ 109,469	\$ 941,304	\$ 109,978

A brief description of the various long-term activities follows.

Governmental Activities

The Community Development Authority borrowed \$250,000 on November 22, 2000 to finance the purchase of vacant land formerly regarded as industrial sites. All environmental testing has been completed and the sites are ready for residential development.

The terms of the loan call for quarterly interest payments, with a current rate of 8.25 percent and a balloon payment due on November 22, 2005, as follows:

Principal due 11/22/05	<u>\$250,000</u>
Interest due 7/1/04 - 6/30/05	17,531
7/1/05 - 11/22/05	<u>6,555</u>
	<u>\$ 24,086</u>

Subsequent to year end, the City paid \$50,000 on the existing loan, and is in the process of renegotiating the interest rate. The 2005 interest due has been calculated using the

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

above mentioned principal reduction, but will be further reduced by the interest rate renegotiation.

Business type Activities

Ambulance Building Installment Purchase Payable

Installment Purchase Payable is generally five to seven year installment debt used to provide funds for purchase of major capital assets. Installment purchases payable are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Ambulance Building	5.50%	<u>\$41,304</u>

Interest payable to maturity on installment purchases payable is as follows:

Ambulance Building	<u>\$ 5,131</u>
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The debt service requirement by year for installment purchases payable is as follows:

<u>Fiscal Year</u>	<u>Ambulance</u>
<u>Ended 6/30</u>	<u>Building</u>
2005	\$ 9,978
2006	10,538
2007	11,132
2008	<u>9,656</u>
	<u>\$ 41,304</u>

Wastewater Treatment Fund

The City issued a Revenue Bond dated March 14, 1990 in the amount of \$170,000 to finance improvements at its City-owned and -operated Wastewater Treatment Plant. Interest over the life of the bond averages 7.08 percent. The balance of payments of principal and interest are as follows:

<u>Pmt. Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/05	\$15,000	1,616	\$16,616
6/30/06	<u>15,000</u>	<u>540</u>	<u>15,540</u>
Totals	<u>\$ 30,000</u>	<u>\$ 2,156</u>	<u>\$32,156</u>

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

Marina Fund – Harbor Expansion

The City issued General Obligation bonds dated September 1, 1994 in the amount of \$450,000 to finance marina expansion projects. Interest over the bond life averages 5.25%. The balance of payments of principal and interest are as follows:

<u>Pmt. Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/1/04	\$ 30,000	\$11,463	\$ 41,463
11/1/05	35,000	9,716	44,716
11/1/06	35,000	7,812	42,812
11/1/07	40,000	5,725	45,725
11/1/08	40,000	3,450	43,450
11/1/09	<u>40,000</u>	<u>1,150</u>	<u>41,150</u>
Totals	<u>\$220,000</u>	<u>\$39,316</u>	<u>\$259,316</u>

The City issued General Obligation bonds dated May 26, 1995 in the amount of \$475,000 to finance marina expansion projects. Interest over the bond life averages 5.1%. The balance of payments of principal and interest are as follows:

<u>Pmt. Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
5/1/05	\$ 30,000	\$ 11,340	\$ 41,340
5/1/06	30,000	9,810	39,810
5/1/07	30,000	8,250	38,250
5/1/08	30,000	6,660	36,660
5/1/09	30,000	4,215	34,215
Thereafter	<u>60,000</u>	<u>5,925</u>	<u>65,925</u>
Totals	<u>\$210,000</u>	<u>\$ 46,200</u>	<u>\$256,200</u>

The City issued General Obligation bonds dated August 10, 2000 in the amount of \$465,000 to finance marina expansion projects. Interest over the bond life averages 5.18%. The balance of payments of principal and interest are as follows:

<u>Pmt. Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/1/04	\$ 25,000	\$ 11,658	\$ 36,658
05/1/05	-	11,045	11,045
11/1/05	25,000	11,045	36,045
05/1/06	-	10,420	10,420
11/1/06	25,000	10,420	35,420
05/1/07	-	9,789	9,789
11/1/07	30,000	9,789	39,789
05/1/08	-	9,024	9,024
11/1/08	30,000	9,024	39,024
Thereafter	<u>305,000</u>	<u>71,016</u>	<u>376,016</u>
Totals	<u>\$440,000</u>	<u>\$163,230</u>	<u>\$603,230</u>

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

NOTE 8 – RESTRICTED ASSETS

The balances of the restricted asset accounts in the business-type activities are as follows:

	Governmental Activities	Business-type Activities		
	General	Water	Wastewater	Total
Cash and Cash Equivalents	\$ 81,248	\$ 173,460	\$ 76,743	\$ 331,451

Restricted Assets in the General, Water and Wastewater Funds represent cash set aside for future capital projects.

NOTE 9 – RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims, and participates in the Michigan Municipal League Liability and Property Pool for claims relating to property loss, torts, errors and omissions, workers' compensation, and unemployment compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and pay member claims in excess of deductible amounts.

NOTE 10 – LITIGATION AND CONTINGENT LIABILITIES

The City is involved in one tax tribunal action, the outcome of which appears favorable. The City Attorney is not aware of any potential claims or contingent liabilities requiring disclosure.

NOTE 11 – EMPLOYMENT RETIREMENT AND AND BENEFIT SYSTEMS

Plan Description - The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 113 Municipal Way, Lansing, MI 48917.

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

The City is in an agent/multi-employer defined contribution plan with the Municipal Employees Retirement System (MERS) administered by the State of Michigan. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2003. The City's covered payroll for employees covered by MERS for the year ended December 31, 2003 was \$952,200 per the actuarial report. Data on covered versus total payroll was available in the latest actuarial evaluation administered by the State of Michigan. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2003. The City's covered payroll for employees covered by MERS for the year ended December 31, 2003 was \$942,520 per the actuarial report. Data on covered versus total payroll was available in the latest actuarial evaluation.

As of December 31, 2003, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>18</u>
Active plan participants:	
Active members	27
Vested former members	<u>4</u>
Total	<u>31</u>

** We were unable to separate the active members into vested and non-vested as required by GASB Statements # 5, 25 and 27.

MERS was organized pursuant to *Public Act 156 of 1851, §12a* (MSA 5.333(a); MCLA 46.12a), as amended, State of Michigan. MERS is regulated under *Public Act 427 of 1984*, the sections of which have been approved by the State Pension Commission.

General and non-union employees contribute three to six percent (3-6%) of their wages to the plan; Police Department employees contribute two point three percent (2.3%); elected officials and special employees are not required to contribute to the plan.

If a member leaves the employ of the municipality or dies without a retirement allowance or other benefit payable on their account, their accumulated contributions will be refunded to same, if living, or to their nominated beneficiary.

Benefits vest after 10 or more years of service, with rights to a deferred benefit commencing at age 60 (age 50 or 55 in certain cases).

This pension plan provides the following provisions: Normal Retirement, Deferred Retirement, Service Retirement Allowance, Disability Retirement Allowance, Non-duty Death Allowance, Duty Connected Death, and Post Retirement Adjustments.

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

Normal Retirement – A member may retire after reaching the age of 60 with 10 or more years of service; age 55 with 15 or more years of credited service (reduced benefit unless Benefit F55 is in effect); or upon reaching age 50 with 25 or more years of credited service (reduced benefit unless Benefit F50 is in effect).

Deferred Retirement – Termination of membership before age 60, other than by retirement or death, after 10 years of credited service. Retirement allowance begins upon application and satisfaction of the requirements of §10. The retirement allowance is computed in the same manner as a service retirement, with the application benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Service Retirement Allowance – Credited service at time of termination of membership multiplied by:

Benefit A	1% of a member's five-year final average compensation (FAC). Benefit A may not be adopted after 1984.
Benefit B	Contact MERS office for details. Benefit B may not be adopted after 1984.
Benefit C new	1.3% of FAC.
Benefit C old	Sum of 1% times the first \$4,200 of FAC, plus 1.5% times the portion of FAC over \$4,200. Benefit C Old may not be adopted after 1984.
Benefit C-1 new	1.5% of FAC.
Benefit C-1 old	Sum of 1.2% times the first \$4,200 of FAC, plus 1.7% times the portion of FAC over \$4,200. Benefit C-1 Old may not be adopted after 1984.
Benefit B-1	1.7% of FAC.
Benefit C-2	2.0% of FAC, payable until attainment of the age at which unreduced Social Security benefits are available (currently age 65 for normal retirement, gradually increasing to age 67). Upon attainment of this age, the benefit reverts to the basic Benefit A, C New, C Old, C-1 New, C-1 Old or B-1.
Benefit B-2	2.0% of FAC.

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

Benefit B-3 2.25% of FAC, with a maximum benefit of 80% of FAC.

Benefit B-4 2.5% of FAC, with a maximum benefit of 80% of FAC.

The retirement allowance is reduced $\frac{1}{2}$ of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available. The reduction may be partially or fully waived by adopting Benefit F55 and/or Benefit F50.

The police department is covered by Benefit B-3, which is 2.25% of FAC with a five-year average (FAC-5) and an 80% maximum.

All general and administrative employees fall under the Benefit B-4, which is funding at 2.5% of FAC with a three-year average (FAC-3) and an 80% maximum.

Disability Retirement Allowance – Total and permanent disability while employed by a participating municipality and after acquiring 10 or more years of credited service. The service requirement is waived if the disability is from service connected causes.

The allowance is computed in the same manner as a service retirement allowance, except that the reduction for retirement before age 60 is not applied.

If disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service if the actually acquired credited service is less than 10 years.

Non-duty Connected Death – If a member or vested former member with 10 or more years of service dies before retirement, a monthly survivor allowance may be payable.

A named contingent survivor beneficiary, if any, will receive a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. The reduction for retirement before age 60 is not applied.

If there is no named beneficiary and the member leaves a spouse, the spouse will receive a survivor allowance. Payment of a retirement allowance to the surviving spouse of a deceased member commences immediately. Payment of a retirement allowance to the surviving spouse of a deceased vested former member shall not commence prior to the date the member would have first satisfied a §10 age and service requirement for an unreduced service retirement allowance. The amount of a surviving spouse's retirement allowance shall be 85% of the

**Notes to Financial Statements
(Continued)**

deceased member's or deceased vested former member's accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

If there is no named beneficiary and no retirement allowance being paid to a surviving spouse, unmarried children under the age of 21 will be paid an equal share of 50% of the deceased member's or deceased vested former member's accrued retirement allowance. The reduction for retirement before age 60 is not applied.

Duty Connected Death – A duty death allowance, computed in the same manner in all respects as a non-duty death allowance, may be payable to a spouse or children if death occurs as a result of performance of duty with a participating municipality. The credited service requirement specified in §26 shall be waived. Minimum benefit is 25% of the deceased member's FAC.

If no retirement allowance becomes payable at death, the member's accumulated contributions are paid to their beneficiary.

Post Retirement Adjustments – Benefit E-2 provides automatic 2.5% annual non-compounded benefit increases to persons (and their beneficiaries) retired on or after the effective date of Benefit E-2. Cumulative increases are limited to increases in the consumer price index.

The City makes annual contributions based on the annual actuarial valuations.

FUNDING STATUS AND PROGRESS

The amount shown below as the "pension benefit obligation" is based on a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to: (a) help users assess the plan's funding status of the system on a going-concern basis; (b) assess progress made in accumulating sufficient assets to pay benefits when due; and (c) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the pension benefit obligation include: (a) a rate of return on the investment of present and future assets of 8% per year compounded annually; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 5%

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

to 4.2% per year, depending on age, attributable to seniority/merit; and (d) the assumption that benefits will not increase 2.5% per year after retirement for persons under benefits E-1 or E-2.

At December 31, 2003, the unfunded pension benefit obligation was \$1,106,158, determined as follows:

Pension Benefit Obligation:

Retirees & beneficiaries currently receiving benefits	\$2,941,038
Terminated employees not yet receiving benefits	145,757
Current employees:	
Accumulated employee contributions, including allocated investment income	621,796
Employer financed	<u>2,744,604</u>
Total pension benefit obligation	\$6,453,195
Net assets available for benefits, at cost (at market: \$4,052,336)	<u>5,347,037</u>
Unfunded Pension Benefit Obligation	<u>\$ 1,106,158</u>

During the year ended December 31, 2003, the plan for the City experienced a net change of \$559,782 in the pension benefit obligation. The combined change in the pension benefit obligation resulting from benefit changes, if any, and revisions in actuarial assumptions is \$-0-.

CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The MERS' funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The contribution rate for normal cost is determined using the credited projected benefits actuarial funding method with proration based on service. MERS uses the level percentage of payroll method to amortize any unfunded liability over a period of 15 years.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

The City's contribution for the fiscal year ended June 30, 2004 was \$92,035. In addition, in compliance with GASB Statement #27, the annual required contribution (ARC) for fiscal year beginning July 1, 2003 was \$108,394.

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

REQUIRED SUPPLEMENTARY INFORMATION ANALYSIS OF FUNDING PROGRESS FOR FISCAL YEAR 2003

<u>Valuation Date 12/31</u>	<u>Accrued Liabilities</u>	<u>Valuation Assets</u>	<u>Funded Percent</u>	<u>Unfunded Actuarial Liability</u>	<u>UAL as % of Annual Payroll</u>
1995	\$ 3,181,320	\$ 2,937,029	92	\$ 244,291	33
1996	3,293,865	3,171,110	96	122,755	17
1997	3,626,750	3,458,213	95	168,537	22
1998	4,122,428	3,817,881	93	304,547	39
1999	4,450,087	4,341,395	98	108,692	13
2000	5,106,674	4,722,511	92	384,163	45
2001	5,536,091	5,008,506	90	527,585	59
2002	5,893,413	5,009,679	87	793,734	84
2003	6,453,195	5,347,037	83	1,106,158	116

NOTE: Actuarial assumptions were revised for the 1997 and 2000 actuarial valuations.

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funded status on a going concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. The unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

REQUIRED SUPPLEMENTARY INFORMATION – REVENUES BY SOURCE AND EXPENSE TYPE

Contributions were made in accordance with actuarially determined contribution requirements. GASB Statements # 5, 25 and 27 require 10 years of historical trend data for the Revenues by Source and Expense Type. The Revenue by Source includes the following data: Employer Contributions, Employee Contributions and Investment Income. The Expenses by Type includes the following data: Benefits, Administration Expenses and Refunds. The latest actuarial reports for these plans are for the year 2003.

NOTE 12 – DEFERRED COMPENSATION PLAN

There are no deferred compensation benefit plans requiring disclosure per GASB Codification §D-24.

CITY OF ROGERS CITY

Notes to Financial Statements (Continued)

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts and City Council resolution. Currently, eight retirees are eligible. The city includes pre-Medicare retirees and their dependents in its insured health care plan, with a contribution required by the participant. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$23,550.

NOTE 14 – ACCOUNTING AND REPORTING CHANGE

Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, along with all related statements and interpretations. Changes to the City's financial statements as a result of GASB 34 include the following:

- A management's discussion and analysis (MD&A) section providing analysis of the City's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities), prepared using full accrual accounting for all of the City's activities, have been provided.
- Capital assets in the governmental activities column of the statement of net assets include infrastructure assets not previously accounted for by the City. The beginning balance adjustment for infrastructure assets was \$2,326,358.
- The governmental activities column includes bonds, compensated absences, and other long-term obligations totaling approximately \$205,175 previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.
- The governmental funds now accrue a liability for compensated absences only to the extent that they come due for payment prior to year end.

NOTE 15 – ACCOUNTING CHANGE

During the year, the City changed its method of accounting for certain fixed assets. The City had an inventory performed and also changed its capitalization threshold from \$500 to either \$1,000 or \$5,000 for particular types of assets.

Required Supplemental Information

(Defined by GASB Codification)

CITY OF ROGERS CITY

REQUIRED SUPPLEMENTAL INFORMATION

GENERAL FUND

Budgetary Comparison Schedule

For the Fiscal Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues:				
Taxes				
Property Tax Levy	\$ 970,871	\$ 975,121	\$ 973,281	\$ (1,840)
Penalties & Interest on Taxes	5,000	5,000	8,269	3,269
Trailer Park Fees	354	354	354	-
Total Taxes	976,225	980,475	981,904	1,429
Intergovernmental				
Liquor License Fees	-	4,000	4,426	426
Metro Act	-	-	14,283	14,283
Revenue Sharing	428,195	428,195	401,203	(26,992)
School Resource Officer Funding	49,712	49,712	50,156	444
Total Intergovernmental	477,907	481,907	470,068	(11,839)
Licenses & Permits	1,500	2,500	2,595	95
Charges for Services				
Fire Protection	4,000	4,000	2,282	(1,718)
Grave Openings	7,000	7,000	6,385	(615)
Various Equip & Supply Sales	2,200	2,350	1,645	(705)
Charges for Services	13,200	13,350	10,312	(3,038)
Fines & Forfeits				
Parking	1,500	1,500	782	(718)
Ordinances	3,500	6,500	6,095	(405)
Total Fines & Forfeits	5,000	8,000	6,877	(1,123)
Investment Revenue	8,072	5,872	6,043	171
Miscellaneous				
Sundry	3,420	88,400	1,027	(87,373)
Reimbursements - Health Insurance	50,016	35,016	34,762	(254)
Reimbursements - Materials	26,000	26,000	14,867	(11,133)
Reimbursements - Fire Equip & Supply	33,800	33,800	20,978	(12,822)
Total Miscellaneous	113,236	183,216	71,634	(111,582)
Contributions & Donations	3,750	16,850	15,689	(1,161)
Payments in Lieu of Taxes	8,000	8,000	7,540	(460)
Operating Transfers In	192,178	126,651	113,118	(13,533)
Total Revenues	\$ 1,799,068	\$ 1,826,821	\$ 1,685,780	\$ (141,041)

CITY OF ROGERS CITY

REQUIRED SUPPLEMENTAL INFORMATION GENERAL FUND

Budgetary Comparison Schedule

For the Fiscal Year Ended June 30, 2004

(Continued from previous page)

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures:				
General Government				
City Council	\$ 47,012	\$ 40,012	\$ 33,946	\$ 6,066
City Manager's Office	65,327	65,327	62,619	2,708
Accounting	86,358	86,358	82,801	3,557
Board of Review	1,873	1,658	1,604	54
Assessor	139,025	27,475	26,928	547
Clerk/Treasurer	87,001	87,901	87,025	876
Elections	3,813	4,731	4,758	(27)
City Hall Buildings & Grounds	52,950	82,522	44,319	38,203
Attorney	18,200	18,200	14,173	4,027
Cemetery	65,769	44,351	37,724	6,627
Promotional	17,522	29,622	10,227	19,395
Total General Government	584,850	488,157	406,124	82,033
Public Safety				
Police /School Resource Officer	382,357	384,957	372,042	12,915
Fire	69,650	69,650	57,285	12,365
Total Public Safety	452,007	454,607	429,327	25,280
Public Works				
Department Operations	127,089	127,089	110,521	16,568
Street Lighting	38,000	38,000	37,693	307
Sanitation/Landfill	8,035	8,035	4,928	3,107
Total Public Works	173,124	173,124	153,142	19,982
Community & Economic Development				
Engineering	40,021	49,771	43,431	6,340
Planning & Zoning	8,241	13,606	7,474	6,132
Total Community & Economic Dev.	48,262	63,377	50,905	12,472
Recreation & Parks	140,074	159,074	131,781	27,293
Other Functions				
Insurance	25,000	20,650	20,102	548
Fringe Benefits	352,315	361,560	358,846	2,714
Total Other Functions	377,315	382,210	378,948	3,262
Capital Outlay	8,600	16,700	14,367	2,333
Operating Transfer Out	46,730	39,522	40,722	(1,200)
Total Expenditures	\$ 1,830,962	\$ 1,776,771	\$ 1,605,316	\$ 171,455

CITY OF ROGERS CITY

REQUIRED SUPPLEMENTAL INFORMATION SPECIAL REVENUE FUND Major Street Fund - Budgetary Comparison Schedule For the Fiscal Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues:				
Intergovernmental				
Gas & Weight Tax	\$ 190,480	\$ 191,550	\$ 191,791	\$ 241
Trunkline Reimbursement	35,611	32,111	38,011	5,900
Total Intergovernmental	<u>226,091</u>	<u>223,661</u>	<u>229,802</u>	<u>6,141</u>
Special Assessments	<u>8,040</u>	<u>8,040</u>	<u>7,257</u>	<u>(783)</u>
Investment Revenue	<u>1,500</u>	<u>2,915</u>	<u>2,917</u>	<u>2</u>
Miscellaneous	<u>-</u>	<u>450</u>	<u>3,371</u>	<u>2,921</u>
Total Revenues	<u>\$ 235,631</u>	<u>\$ 235,066</u>	<u>\$ 243,347</u>	<u>\$ 8,281</u>
Expenditures:				
General Government	\$ 1,000	\$ 1,000	\$ 1,000	\$ -
Transportation				
Routine Maintenance	29,933	33,933	21,888	12,045
State Trunkline Maintenance	50,177	68,572	62,737	5,835
Winter Maintenance	<u>30,655</u>	<u>32,160</u>	<u>32,139</u>	<u>21</u>
Total Transportation	<u>110,765</u>	<u>134,665</u>	<u>116,764</u>	<u>17,901</u>
Other Functions - Insurance	<u>850</u>	<u>310</u>	<u>308</u>	<u>2</u>
Capital Outlay	<u>139,368</u>	<u>90,066</u>	<u>89,079</u>	<u>987</u>
Operating Transfers Out	<u>46,730</u>	<u>67,042</u>	<u>67,126</u>	<u>(84)</u>
Total Expenditures	<u>\$ 298,713</u>	<u>\$ 293,083</u>	<u>\$ 274,277</u>	<u>\$ 18,806</u>

CITY OF ROGERS CITY

REQUIRED SUPPLEMENTAL INFORMATION SPECIAL REVENUE FUND Local Street Fund – Budgetary Comparison Schedule For the Fiscal Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues:				
Intergovernmental				
Gas & Weight Tax	\$ 78,227	\$ 78,227	\$ 78,949	\$ 722
Winter Maintenance	9,000	15,500	15,517	17
Total Intergovernmental	<u>87,227</u>	<u>93,727</u>	<u>94,466</u>	<u>739</u>
Special Assessments	<u>5,182</u>	<u>6,132</u>	<u>6,169</u>	<u>37</u>
Investment Revenue	<u>-</u>	<u>50</u>	<u>43</u>	<u>(7)</u>
Transfers In	<u>47,620</u>	<u>77,789</u>	<u>77,849</u>	<u>60</u>
Total Revenues	<u>\$ 140,029</u>	<u>\$ 177,698</u>	<u>\$ 178,527</u>	<u>\$ 829</u>
Expenditures:				
General Government	\$ 1,000	\$ 1,000	\$ 1,000	\$ -
Transportation				
Routine Maintenance	68,148	68,148	59,362	8,786
Winter Maintenance	<u>74,603</u>	<u>67,821</u>	<u>67,812</u>	<u>9</u>
Total Transportation	<u>142,751</u>	<u>135,969</u>	<u>127,174</u>	<u>8,795</u>
Other Functions - Insurance	<u>850</u>	<u>310</u>	<u>308</u>	<u>2</u>
Capital Outlay	<u>8,774</u>	<u>32,502</u>	<u>874</u>	<u>31,628</u>
Operating Transfer Out	<u>7,822</u>	<u>7,822</u>	<u>7,894</u>	<u>(72)</u>
Total Expenditures	<u>\$ 161,197</u>	<u>\$ 177,603</u>	<u>\$ 137,250</u>	<u>\$ 40,353</u>

Other Supplemental Information

CITY OF ROGERS CITY

2022/2023 BUDGET

Special Revenue Funds				
	Band	Small Cities	Act 302	Brownfield Grant
ASSETS				
Cash	\$ 210	\$ 28,573	\$ 1,355	\$ 1,174
Investments	-	300,000	-	-
Accounts Receivable	104	9,002	-	26,323
Total Assets	314	337,575	1,355	27,497
LIABILITIES				
Due to Other Funds	-	-	-	5,000
Total Liabilities	-	-	-	5,000
NET ASSETS				
Restricted Assets	-	250,000	-	-
Unrestricted Assets	314	87,575	1,355	22,497
Non-Expendable Restricted	-	-	-	-
Total Net Assets	\$ 314	\$ 337,575	\$ 1,355	\$ 22,497

OTHER SUPPLEMENTAL INFORMATION
NON-MAJOR FUNDS

Combining Balance Sheet
June 30, 2004

<u>Debt Service Funds</u>		<u>Trust & Agency</u>	Total Nonmajor Governmental Funds
<u>87 Street Debt</u>	<u>95 Street Debt</u>	<u>Perpetual Care</u>	
\$ 998	\$ 12,731	\$ 9,922	\$ 54,963
-	-	131,337	431,337
618	-	-	36,047
<u>1,616</u>	<u>12,731</u>	<u>141,259</u>	<u>522,347</u>
-	-	2,693	7,693
-	-	<u>2,693</u>	<u>7,693</u>
-	-	-	250,000
1,616	12,731	-	126,088
-	-	138,566	138,566
<u>\$ 1,616</u>	<u>\$ 12,731</u>	<u>\$ 138,566</u>	<u>\$ 514,654</u>

CITY OF ROGERS CITY

2019-2020 Annual Budget - Special Revenue Funds

	Special Revenue Funds			
	Band	Small Cities	Act 302	Brownfield Grant
Revenues:				
Taxes	\$ 11,436	\$ -	\$ -	\$ -
Intergovernmental	-	200,000	1,657	3,601
Special Assessments	-	-	-	-
Investment Revenue	-	4,127	-	-
Miscellaneous	-	-	-	-
Total Revenues	11,436	204,127	1,657	3,601
Expenditures:				
General Government	-	1,970	-	-
Public Safety	-	-	1,436	-
Community Development	-	-	-	1,549
Recreation & Parks	13,882	-	-	-
Debt Service	-	-	-	-
Total Expenditures	13,882	1,970	1,436	1,549
Excess (Deficiency) of Revenues Over Expenditures	(2,446)	202,157	221	2,052
Other Financing Sources (Uses)				
Operating Transfers In	1,200	-	-	-
Operating Transfers Out	(250)	(1,000)	-	-
Total Other Financing Sources (Uses)	950	(1,000)	-	-
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(1,496)	201,157	221	2,052
Fund Balances - Beginning of Year	1,810	136,418	1,134	20,445
Fund Balances - End of Year	\$ 314	\$ 337,575	\$ 1,355	\$ 22,497

OTHER SUPPLEMENTAL INFORMATION
NON-MAJOR FUNDS
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balance
For the Fiscal Year Ended June 30, 2004

<u>Debt Service Funds</u>		<u>Trust & Agency</u>		
<u>87 Street Debt</u>	<u>95 Street Debt</u>	<u>Perpetual Care</u>	<u>Total Governmental Funds</u>	
\$ 21	\$ -	\$ -	\$ 11,457	
-	-	-	205,258	
-	2,592	-	2,592	
4	38	2,693	6,862	
-	-	750	750	
<hr/>				
25	2,630	3,443	226,919	
-	-	-	1,970	
-	-	-	1,436	
-	-	-	1,549	
-	-	-	13,882	
-	7,187	-	7,187	
<hr/>				
-	7,187	-	26,024	
<hr/>				
25	(4,557)	3,443	200,895	
-	-	-	1,200	
-	-	(2,693)	(3,943)	
<hr/>				
-	-	(2,693)	(2,743)	
<hr/>				
25	(4,557)	750	198,152	
1,591	17,288	137,816	316,502	
<hr/>				
\$ 1,616	\$ 12,731	\$ 138,566	\$ 514,654	

October 28, 2004

**Report on Compliance with Requirements Applicable to Each Major Program and
on Internal Control Over Compliance in Accordance with OMB Circular A-133
(Unqualified Opinion on Compliance and No Material Weaknesses)**Honorable City Council
City of Rogers City
Presque Isle County, MichiganCompliance

I have audited the compliance of the City of Rogers City with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of Rogers City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Rogers City's management. My responsibility is to express an opinion on the City of Rogers City's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Rogers City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City of Rogers City's compliance with those requirements.

In my opinion, the City of Rogers City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control over Compliance

The management of the City of Rogers City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City of Rogers City's internal control over compliance with requirements that could have a direct and material effect on a major

federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management of the City of Rogers City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 28, 2004

**Report on Compliance and on Internal Control over Financial Reporting Based on
an Audit of Financial Statements Performed in Accordance with *Government
Auditing Standards (No Reportable Instances of Noncompliance and No Material
Weaknesses)***

Honorable City Council
City of Rogers City
Presque Isle County, Michigan

I have audited the financial statements of the City of Rogers City, State of Michigan, as of and for the year ended June 30, 2004, and have issued my report thereon dated October 28, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Rogers City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Rogers City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management of the City of Rogers City, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



CITY OF ROGERS CITY

Schedule of Disbursements of Federal Awards For the Fiscal Year Ended June 30, 2004

Federal Grant Grantor / Program Title	Federal CDFA #	Award Amount	Beginning Balance 7/1/2003	Receipts Recognized	Current Disbursements	Ending Balance 6/30/2004
United States Department of Commerce (EDA) Award #06-01-04668	11.300	\$ 1,070,000	\$ -	\$ 728,604	\$ 728,604	\$ -
United States Department of Health and Urban Dvelopment (CDBG) Award #MSC-20217-ED16	14.228	200,000	-	200,000	200,000	-
United States Department of Health and Human Services	93.556	<u>9,951</u>	<u>-</u>	<u>9,951</u>	<u>9,951</u>	<u>-</u>
Totals		<u>\$ 1,279,951</u>	<u>\$ -</u>	<u>\$ 938,555</u>	<u>\$ 938,555</u>	<u>\$ -</u>

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Disbursements of Federal Funds includes the grant activity of the City of Rogers City, and is presented on the cash basis of accounting. The information is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

CITY OF ROGERS CITY

Schedule of Findings and Questioned Costs For the Fiscal Year Ended June 30, 2004

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified (cash basis)
Internal control over financial reporting: _____ yes X no
Material weaknesses identified? _____ yes X no
Reportable condition identified that is
not considered to be material weakness? _____ yes X no
Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs: _____ yes X no
Material weaknesses identified? _____ yes X no
Reportable condition identified that is
not considered to be material weakness? _____ yes X no

Type of auditor's report issued on compliance for
major programs:

Any audit findings disclosed that are required to be
reported in accordance with §510(a) of Circular
A-133? _____ yes X no

Identification of major programs:

CFDA
11.300

Name of Federal Program
Economic Development – Public Works

Dollar threshold used to distinguish between type A
And type B programs:

\$300,000

Auditee qualified as low-risk auditee? _____ yes X no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

CITY OF ROGERS CITY

Schedule of Findings & Questioned Costs (Continued)

Prior Year Activity

The US Department of Commerce (EDA) award #06-01-04668 had reported activity of \$259,806 combined with the recognized receipt and disbursement of \$728,604, resulting in a total two-year receipt of \$988,410. The original award was \$1,070,000, leaving a balance of \$81,590 to be received in the upcoming fiscal year prior to any changes to the program award.

October 28, 2004

Honorable Mayor and City Council
City of Rogers City
Rogers City, Michigan 49779

In connection with my recent examination of the City of Rogers City, State of Michigan (the "City")'s financial statements for the fiscal year ended June 30, 2004, I tested the internal accounting controls, reviewed significant accounting policies and procedures and certain financial and administrative practices for the purpose of determining the scope of my examination. Since my review of the system of internal control was made to enable me to express an opinion of the financial statement, it would not necessarily disclose all weaknesses in the system, which may exist.

The following comments and observations are related to the City's accounting and certain other practices that came to my attention during the course of the audit:

1. Public Act 621

The City is in technical violation of one part of the Uniform Accounting and Budgeting Act as disclosed in the Notes to the Financial Statements. However, in all cases, sufficient fund balances or increased revenues made the effect immaterial.

The overexpenditures were the result of not making sufficient budget adjustments for the final month of operation, improper expense classification or effects of year-end audit adjustment.

Recommendation

In all cases the budget has fulfilled its operational purpose as management has analyzed the various computer reports and any operating deficits resolved. However, to comply fully with the technical aspects of *P.A. Act 621*, it is suggested that the final review of the budget status report, currently being done in preparation for the next fiscal year's budget, result in a final amendment of the existing budget. This adjustment should anticipate accrual basis adjustments.

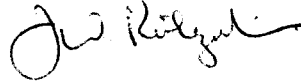
2. Acceptance by City Council of Audited Financial Statements

It is recommended that these audited Financial Statements and recommendations are accepted by the Council by a motion similar to the following:

"Moved by _____ and seconded by _____, that the City's 2003-04 audited Financial Statements be accepted and presented and that, insofar as possible, the recommendations made by our auditor in his Letter of Comments and Recommendations be followed."

I would like to take this opportunity to thank the City staff for their outstanding cooperation in performing the audit. I will be available for review of these comments and recommendations as well as other matters.

Respectfully submitted,



J.W. Kieliszewski